Japan Credit Rating Agency, Ltd. (JCR) announces the following credit ratings.

**Republic of Indonesia** *(security code: -)*

<table>
<thead>
<tr>
<th>Rating Category</th>
<th>Rating</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign Currency Long-term Issuer Rating</td>
<td>from BBB- to BBB</td>
<td></td>
</tr>
<tr>
<td>Outlook</td>
<td>from Positive to Stable</td>
<td></td>
</tr>
<tr>
<td>Local Currency Long-term Issuer Rating</td>
<td>from BB to BB+</td>
<td></td>
</tr>
<tr>
<td>Outlook</td>
<td>from Positive to Stable</td>
<td></td>
</tr>
<tr>
<td>Bonds:</td>
<td>from BB to BB</td>
<td></td>
</tr>
</tbody>
</table>

**Rationale**

(1) Indonesia is an archipelagic country, the largest in Southeast Asia, with the world’s fourth-largest population (263 million in 2017). Since taking office in October 2014, the government led by President Joko Widodo has been pressing ahead with structural reforms aimed to promote sustainable growth through reduced dependence on the natural resources sector. The effect of the reform initiatives has emerged in various aspects three years since the inauguration of the administration. First, the investment climate has significantly improved under a series of Economic Policy Packages. Domestic private investment has begun increasing mainly in the non-resources sector along with accelerating foreign direct investment. Second, infrastructure development has been gaining momentum under strong initiative of President Joko Widodo for determination of National Strategic Projects (PSN). Third, the external debt owed by the private sector has been curbed since 2016 as a result of the phased implementation of prudential regulations on external borrowing by Bank Indonesia. This has led to strengthening the country’s resilience to external shocks. Taking those into consideration, JCR has upgraded its ratings by one notch and changed the outlook to Stable. JCR has also upgraded its country ceiling for Indonesia by one notch to “BBB+”.

(2) Indonesia is highly dependent on mineral resources such as coal. Private investment was stagnant particularly in the resources sector as coal prices kept falling since 2011. Faced with the situation, the government has implemented a total of 15 Economic Policy Packages since September 2015. It has brought about significant improvement on the investment environment through the deregulation it enforced under those policies. Bank Indonesia has also made a series of policy rate cuts as the consumer price index stayed within its inflation target range. These measures have prompted private investment particularly in the non-resources sector, giving a boost to economic growth. In addition, the government formed the Committee for Acceleration of Priority Infrastructure Delivery (KPPIP) in 2015 and designated 245 National Strategic Projects with an estimated total investment of USD327.2 billion (equivalent to approximately 30% of nominal GDP) as of December 2017. Around 60% of the projects are already under construction, showcasing the accelerated infrastructure development. Having said that, the majority of the funding requirements is dependent on the private sector. The government intends to actively mobilize funds including external sources for infrastructure while continuing to contain overall external borrowing. JCR will closely monitor whether fund procurement from the private sector for infrastructure will proceed as planned going forward.

(3) The country’s current account deficit has been narrowing in recent years amid the growth of exports in the non-natural resources sector. The deficit is expected to stay below the manageable level of 2% of GDP in 2018-2020 as it is estimated in 2017. The external debt owed by private nonfinancial corporations shrank in 2016 from the previous year and stayed almost flat in 2017 thanks to the phased implementation of prudential regulations on external borrowing by Bank Indonesia since 2014. The foreign exchange reserves stood high enough to cover 8.6 months of imports and 2.5 times of the short-term external debt, illustrating the country’s strengthened resilience to external shocks. The banking sector has been retaining its soundness, with its capital adequacy ratio and nonperforming loan ratio standing at 23.20% and 2.89%, respectively, at the end of November 2017. Although its domestic credit stood at around 40% of GDP, lower among the sovereign governments rated BBB range by JCR, financing through the financial markets has
maintained robust growth in recent years as the total amount of issuances of stocks, bonds, and medium-term notes (MTN) increased by 29.7% year-on-year in November 2017.

(4) On the fiscal front, the government has been promoting expenditure reforms since 2015 to cut the energy subsidy and to increase spending on infrastructure, education and health. It has been successful in reducing the fiscal deficit and enhancing the efficiency of spending allocation. The latest government estimates expect both the primary and overall fiscal deficits of the central government to shrink in 2017 from the previous year to 0.87% and 2.46% of GDP, respectively.

Under its medium-term budget framework, the government plans to turn the primary deficit into a surplus in 2020 on the assumption of moderate acceleration of growth. The central government debt, already low at around 28% of GDP at the end of 2017, is planned to further decrease as the government pushes ahead with fiscal consolidation. Yet, budget revenues stand at around 12% of GDP, one of the lowest among the sovereign governments rated BBB range by JCR. JCR will pay close attention to further strengthening of the revenue base through drastic reforms following its Tax Amnesty Program.

Atsushi Masuda, Shinichi Endo

Rating
Issuer: Republic of Indonesia

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<thead>
<tr>
<th>Rating Change</th>
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<th>Outlook</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign Currency Long-term Issuer Rating</td>
<td>BBB</td>
<td>Stable</td>
</tr>
<tr>
<td>Local Currency Long-term Issuer Rating</td>
<td>BBB+</td>
<td>Stable</td>
</tr>
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</table>

Rating Assignment Date: February 5, 2018

The aforementioned long-term issuer credit ratings are unsolicited. Except in cases of a credit rating for a sovereign, JCR indicates affix “p” after a rating symbol to distinguish it from a rating with solictation. The undisclosed information, which has material influence on the credit rating, was obtained from the rating stakeholder.

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JCR publishes its press releases regarding the rating actions both in Japanese and in English on the same day. In case it takes time to translate rating rationale, JCR may publishize the summary version, which will be replaced by the full translated version within three business days. (Regarding Structured Finance products, JCR only publishizes the summary version in English.)

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Disclosure Required by Paragraph (a)(1)(ii) of Rule 17g-7

Issuer: Republic of Indonesia
Rating Publication Date: February 8, 2018

1. The Symbol, Number, or Score in the Rating Scale used to Denote Credit Rating Categories and Notches and, the Identity of the Obligor or the Identity and a Description of the Security or Money Market Instrument as Required by Paragraph (a)(1)(ii)(A) of Rule 17g-7

   • Please see the news release.

2. The version of the procedure or methodology used to determine the credit rating; as Required by Paragraph (a)(1)(ii)(B) of Rule 17g-7

   • Please see the news release.

3. The Main Assumptions and Principles used in Constructing the Procedures and Methodologies used to Determine the Credit Rating as Required by Paragraph (a)(1)(ii)(C) of Rule 17g-7

   • The credit rating methodology assumes, in principle, to be applied to assess the likelihood of a given debt payment in light of its issuer’s condition and business environment, etc. in the relevant future. There is certain limitation, however, in the time horizon that the rating foresees.

   • The credit rating methodology assumes, in principle, that the factors posted in the below are particularly important for such likelihood to be determined, and that the rating determination is made by evaluating each of them not only quantitatively but also employing qualitative analyses.

   A) Economic Base
      The likelihood of a given debt payment is highly conditional to the issuing government’s ability to maintain/expand the economic base into the future with maintaining soundness of financial systems.

   B) Fiscal Base
      The likelihood of a given debt payment is highly correlated to fiscal balance, public debt and other factors of the issuing government’s fiscal condition.

   C) External Positions
      The likelihood of a given debt payment is highly correlated to the liquidity positions which change along with the international balance of payments and the international investment position.

   D) Social and Political Bases and Economic Policy
      The likelihood of a given debt payment is highly conditional to the social and political stability, effectiveness of economic and monetary policies as well as international economics.
E) Related Parties’ Stance of Support/ Assistance for the Government
The likelihood of a given debt payment is affected by the stance of the credit enhancement provider and other related parties with regard to their stance of support/ assistance for the issuing government.

F) Order of Seniority in Debt Payment
The likelihood of debt payment can be different between given debts of the same issuer. The likelihood of debt payment for an individual debt is dependent on the issuing government’s will, and/or its rank relative to other debts of the same government in the order of seniority in principal/ interest payment which is determined by design as financial product or by international practice, etc.

4 The Potential Limitations of the Credit Rating as Required by Paragraph (a)(1)(ii)(D) of Rule 17g-7

- The credit rating herewith presented by JCR is its summary opinion with regard to the likelihood of given debt payment and hence not necessarily a perfect representation of such likelihood. The credit rating is not intended to estimate the probability of default or the loss on given default, either.
- The objective of the credit rating herewith presented does not include any concerns other than the likelihood of debt payment, such as risks of price changes, market liquidity, etc.
- The credit rating herewith presented is necessary to be reviewed along with possible changes of the issuer of rated objects in its business performance and/or circumstances which include regulatory environment, and hence subject to possible alteration.

5 Information on the Uncertainty of the Credit Rating as Required by Paragraph (a)(1)(ii)(E) of Rule 17g-7

- The information used for the determination of credit rating as herewith presented is obtained by JCR from the issuer of rated objects and other sources that JCR trusts in terms of accuracy and reliability but possibly contains errors due to human, non-human or other causes. Consequently, the credit rating determined on the grounds of such information does not constitute, explicitly or implicitly, any representation or warrant of JCR on the information itself or any consequences of its use in terms of accuracy, relevance, timeliness, wholeness, market value, or usefulness for any specific purposes.

6 Use of Due Diligence Services of a Third Party in Taking the Rating Action as Required by Paragraph (a)(1)(ii)(F) of Rule 17g-7

- There is no use of any third-party due diligence service in the determination of the credit rating herewith presented.

7 Use of Servicer or Remittance Reports to Conduct Surveillance of the Credit Rating Required by Paragraph (a)(1)(ii)(G) of Rule 17g-7

- There is no use of any servicer or remittance report to conduct surveillance of the credit rating herewith presented.

8 The Types of Data Relied Upon for the Purpose of Determining the Credit Rating as Required by Paragraph (a)(1)(ii)(H) of Rule 17g-7
The information posted in the below, which includes data, is used for the determination of the credit rating herewith presented.

A) Informational and explanatory materials presented by the rating stakeholders with regard to the economy and fiscal management policy, etc. of the issuing government

B) Statistics and reports published by an independent organization with regard to the economy and fiscal status, etc. of the issuing government

9 Overall assessment of the Quality of Information Available and Considered in Determining the Credit Rating as Required by Paragraph (a)(1)(ii)(l) of Rule 17g-7

- JCR holds its basic policies for securing the quality of information as a base of due diligence for the determination of credit ratings. The information used as a base for the determination of credit rating herewith presented satisfies such policies, which include the publication by the issuer or some independent media or, otherwise, JCR analyst’s scrutiny, etc.

- JCR sees no particular weakness in the quality of information used for the determination of the credit rating herewith presented as compared to the information used in other cases of the credit rating for comparable issuers or ratable objects.

10 Information Relating to Conflicts of Interest as Required by Paragraph (a)(1)(ii)(J) of Rule 17g-7

- JCR does not receive payment of compensation for the determination of the credit rating herewith presented from either one of those parties who are issuer, underwriter, depositor or sponsor.

- JCR did not receive in the last fiscal year in the past payment of compensation from the same party for any kind of JCR’s service other than the determination of credit rating, such as one in the ancillary business.

11 Explanation or Measure of the Potential Volatility of the Credit Rating as Required by Paragraph (a)(1)(ii)(K) of Rule 17g-7

A) Economic Base
The credit rating is subject to alteration if there is an improvement or deterioration of the issuer’s economy or financial systems, etc. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change is large.

B) Fiscal Base
The credit rating is subject to alteration if the issuer increases/ decreases its fiscal deficit/ surplus and its public debt and thereby makes given debt payment liability less/ more bearable. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change is large.

C) External Positions
The credit rating is subject to alteration if there is a change in the issuer’s international balance of payments and international investment position and thereby an improvement/ deterioration of its liquidity positions. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change is large.

D) Social and Political Bases and Economic Policy
The credit rating is subject to alteration if there is a change in the issuer’s social and political conditions or economic/ monetary policies, etc. and thereby an improvement/ deterioration of its economy and fiscal positions. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change is large.
E) Related Parties’ Stance of Support/ Assistance for the Issuer
The credit rating is subject to alteration if there is a change in the credit enhancement provider or other related parties with regard to their stance of support/ assistance for the issuing government and thereby an improvement/ deterioration of its economy, fiscal positions and liquidity positions. The resultant alteration of the credit rating is usually a notch, with possibility of a few notches if and when the change is large.

F) Order of Seniority in Debt Payment
The credit rating is subject to alteration if there is a change in the rated debt’s status in the order of seniority relative to other debts, due to improvement/ deterioration of the issuer’s fiscal condition and/or will. The resultant alteration of the credit rating is usually a notch, with possibility of a few notches if and when the change is large.

G) International Economies
The credit rating is subject to alteration if there is a change in the international economies, commodity or foreign exchange markets, etc. and thereby, through international balance of payments, an improvement/ deterioration in the issuer’s fiscal balance or debt payment capacity. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change is exceptionally large.

H) Various Events
The credit rating is subject to alteration on occurrence of various events, such as domestic unrest, war, natural disaster, etc. which are unforeseeable at the time when the credit rating is determined, causing a significant change on the issuer’s economy, fiscal positions, etc. The resultant alteration of the credit rating could be by a notch but more often than not as much as a few notches.

12 Information on the Content of the Credit Rating, Including the Historical Performance of the Credit Rating and the Expected Probability of Default and the Expected Loss in the Event of Default as Required by Paragraph (a)(1)(ii)(L) of Rule 17g-7

- Historical records of the credit rating herewith presented are posted in the end of this paper.
- The credit rating herewith presented by JCR is its summary opinion with regard to the likelihood of given debt payment and hence not necessarily a perfect representation of such likelihood. The credit rating is not intended to estimate the probability of default or the loss on given default, either.
- Facts of the probability of default are posted as Form NRSRO Exhibit 1 on the JCR website under the URL:
  https://www.jcr.co.jp/en/service/company/regu/nrsro/

13 Information on the Sensitivity of the Credit Rating to Assumptions Made as Required by Paragraph (a)(1)(ii)(M) of Rule 17g-7

A) Economic Base
The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the issuer’s economy or financial systems, etc. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but possibly as much as a few notches if the development is rapid in improvement or deterioration of the issuer’s economy or financial systems on some drastic change in environments, etc.

B) Fiscal Base
The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the issuer’s fiscal conditions in terms of annual balance or public debt. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but possibly as much as a few notches if the development is rapid in improvement or deterioration of the issuer’s fiscal condition on some drastic change in its economy.

C) External Positions
The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the issuer’s liquidity positions reflecting
improvement or deterioration of the international balance of payments and the international investment position. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but possibly as much as a few notches if the development is rapid in improvement or deterioration of the issuer’s liquidity positions on some drastic change in the country’s economic/ fiscal conditions and financing activities, etc.

D) Social and Political Bases and Economic Policies
The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the issuer’s social and political bases and economic/ monetary policies. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but possibly as much as a few notches if the country’s situation changes drastically, making the issuer’s social and political bases and economic/monetary policies significantly improved or deteriorated.

E) International Economics
The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the prospects of the international economies or commodity/ foreign exchange markets, etc. JCR expects the change should be most likely by a notch but could be as much as a few notches, should the economy or the markets change so greatly.

Information on the Representations, Warranties, and Enforcement Mechanisms of an Asset-backed Security as Required by Paragraph (a)(1)(ii)(N) of rule 17g-7

- The credit rating herewith presented is not for an ABS product, and hence no relevant issue.
The Historical Performance of the Credit Rating

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<thead>
<tr>
<th>Issuer Name</th>
<th>Issue Name</th>
<th>Publication Date</th>
<th>Rating</th>
<th>Outlook/Direction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Republic of Indonesia</td>
<td>Local Long-term Issuer Rating</td>
<td>May 26, 2004</td>
<td>B+</td>
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<tr>
<td>Republic of Indonesia</td>
<td>Local Long-term Issuer Rating</td>
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<td>BB</td>
<td>Stable</td>
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<td>Republic of Indonesia</td>
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<td>September 6, 2007</td>
<td>BB+</td>
<td>Positive</td>
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<tr>
<td>Republic of Indonesia</td>
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<td>September 25, 2008</td>
<td>BB+</td>
<td>Positive</td>
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<tr>
<td>Republic of Indonesia</td>
<td>Local Long-term Issuer Rating</td>
<td>February 5, 2009</td>
<td>BB+</td>
<td>Stable</td>
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<tr>
<td>Republic of Indonesia</td>
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<td>July 7, 2009</td>
<td>BBB-</td>
<td>Stable</td>
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<tr>
<td>Republic of Indonesia</td>
<td>Local Long-term Issuer Rating</td>
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<td>BBB</td>
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<td>Republic of Indonesia</td>
<td>Japanese Yen Bonds Series E</td>
<td>August 4, 2015</td>
<td>BBB</td>
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<td>Republic of Indonesia</td>
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<td>February 1, 2016</td>
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</table>
Attestation Required by Paragraph (a)(1)(iii) of Rule 17g-7

I, Atsushi Masuda, have responsibility to this Rating Action and to the best of my knowledge:

A) No part of the credit rating was influenced by any other business activities.

B) The credit rating was based solely upon the merits of the obligor, security, or money market instrument being rated.

C) The credit rating was an independent evaluation of the credit risk of the obligor, security, or money market instrument.

Atsushi Masuda
General Manager of International Rating Department

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